



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ACCOUNTING P1
FINANCIAL REPORTING AND EVALUATION
EXEMPLAR 2020**

MARKS: 150

TIME: 2 hours

**This question paper consists of 11 pages,
1 formula sheet and a 9-page answer book.**

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL questions.
2. A special ANSWER BOOK is provided in which to answer ALL questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.
8. Write neatly and legibly.
9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	TIME (minutes)
1	Audit Report and Professional Bodies	15	10
2	Statement of Financial Position, Net Profit and Asset Disposal	65	50
3	Cash Flow Statement and Financial Indicators	30	20
4	Interpretation of Company Information	40	40
TOTAL		150	120

NOTE: Questions in this question paper are based on questions from the NSC November 2019 Accounting question paper.

QUESTION 1: AUDIT REPORT AND PROFESSIONAL BODIES (15 marks; 10 minutes)

Swinton & Partners are the independent auditors of Shivaz Limited. You are provided with extracts from the published financial statements and independent audit report for the year ended 30 June 2019.

INFORMATION:**A. Extract from the financial statements for the year ended 30 June 2019:**

	R
Current assets	2 600 000
Current liabilities	7 800 000
Trade and other receivables	750 000
Trade and other payables	5 800 000
Inventories	1 700 000
Cash and cash equivalents	150 000
Bank overdraft	2 000 000

B. Extracts from the independent audit report:**Basis for audit report**

Point 1 We were unable to obtain sufficient audit evidence to support the amounts provided for certain income and expense items ...

Point 2 Furthermore, the repurchase of shares on 31 May 2019 is not in accordance with provisions of the Companies Act, as the liquidity of the company has been compromised ...

Opinion

Point 3 Because of the significance of the matters described above, we do not express an opinion ...

REQUIRED:

- 1.1 Why it is important for the independent auditors to be members of a professional accounting body, in this case SAICA? Give TWO reasons. (2)
- 1.2 Why is it necessary for the published financial statements of Shivas Ltd to be audited by an 'independent' auditor? Give TWO reasons. (2)
- 1.3 **Refer to Point 3 in the audit report.**
- What type of audit report did the company receive? (1)
 - Explain why the auditors decided to present this type of report. (2)
- 1.4 **Refer to Point 1 in the audit report.**
Give TWO examples of audit evidence that the auditors would have required regarding this problem. (2)
- 1.5 **Refer to Point 2 in the audit report.**
- Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion. (4)
 - Explain what the directors could have done to prevent this opinion by the auditors. Provide TWO points. (2)

KEEP THIS PAGE BLANK.

QUESTION 2: STATEMENT OF FINANCIAL POSITION, NET PROFIT AND ASSET DISPOSAL
(65 marks; 50 minutes)

- 2.1 Choose an explanation in COLUMN B that matches the term in COLUMN A. Write only the letters (A–E) next to the question numbers (2.1.1 to 2.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
2.1.1	Internal auditor	A	appointed by shareholders to manage a company
2.1.2	Memorandum of incorporation (MOI)	B	the body responsible for registration of all companies
2.1.3	Limited liability	C	employed by a company to ensure good internal control procedures
2.1.4	Director	D	indicates that a company has a legal personality of its own
2.1.5	Companies and Intellectual Property Commission (CIPC)	E	the document that establishes the rules and procedures of a company

(5 x 1) (5)

2.2 **VISIV LTD**

The financial year ended on 28 February 2019.

REQUIRED:

2.2.1 Calculate:

- Amounts for **(i)** and **(ii)** in the Fixed Assets Register (5)
- Profit/Loss on sale of asset (2)
- Fixed assets carrying value on 28 February 2019 (4)

2.2.2 Calculate the correct net profit **after tax** for the year ended 28 February 2019. Indicate (+) for increase and (–) for decrease. (10)

2.2.3 Refer to Information A–I. Prepare the following on 28 February 2019:

- Retained Income Note (9)
- Statement of Financial Position (Balance Sheet). (30)

NOTE: Show workings. Certain figures are provided in the ANSWER BOOK.

INFORMATION:**A. Fixed assets:**

A delivery vehicle was sold on 31 October 2018 but no entries were made to record this transaction.

Details of vehicle sold:

Delivery Vehicle X43			
Date purchased: 1 March 2016			
Date sold: 31 October 2018		Sold for: R195 000 (cash)	
Depreciation rate: 25% p.a. (diminishing-balance method)			
	COST	DEPRECIATION	CARRYING VALUE
28 February 2017	R400 000	R100 000	R300 000
28 February 2018		75 000	225 000
31 October 2018		(i)	(ii)

B. List of balances/totals on 28 February 2019 (before taking into account all adjustments below):

Ordinary share capital	R8 152 000
Retained income (1 March 2018)	865 300
Mortgage loan: Prati Bank	1 758 000
Fixed assets (carrying value)	10 190 000
Fixed deposit: Prati Bank (balancing figure)	?
Trading stock	?
Net trade debtors	1 090 000
Bank (favourable)	?
SARS: Income tax (provisional tax payments)	155 000
Creditors' control	1 906 800

C. Net profit before tax, R822 700, was calculated **before correcting the following:**

- Provision for bad debts must be increased by R65 000.
- R9 800 of an advertising contract applies to the next financial year.
- A tenant paid rent of R334 000 for the period 1 March 2018 to 31 March 2019. Rent was increased by R3 000 per month from 1 January 2019.
- Depreciation and profit/loss on the vehicle sold must be recorded.
- A further R43 000 is owed for income tax.

D. Ordinary shares:

DATE	DETAILS
1 March 2018	2 000 000 shares in issue; total book value R7 600 000
31 May 2018	360 000 shares repurchased at R4,10 each
1 October 2018	800 000 new shares issued
28 February 2019	2 440 000 shares in issue

E. Dividends:

- Interim dividends were paid in September 2018, R295 200.
- Final dividends of 20c per share were declared on 28 February 2019.

F. The business sells portable generators.

Closing stock of 128 units must be valued using the weighted average method. The business bought two batches of stock during the year.

	NUMBER OF UNITS	COST PER UNIT (INCLUDING CARRIAGE)	TOTAL COSTS PER BATCH
Opening stock	0		
Purchases:			
Batch 1 (March 2018)	300	R9 000	R2 700 000
Batch 2 (August 2018)	200	R8 000	R1 600 000

G. A creditor with a debit balance of R7 600 must be transferred to the Debtors' Ledger.**H. A cheque for R75 000, dated 30 April 2019, was issued to a supplier in February 2019.****I. After processing all adjustments:**

- The current ratio is 0,8 : 1.
- The current liabilities totalled R2 900 000.
- The current portion of the loan is the balancing figure.

QUESTION 3: CASH FLOW STATEMENT AND FINANCIAL INDICATORS
(30 marks; 20 minutes)

- 3.1 Three financial statements are provided as options in which each of the following items would appear. Choose the financial statement and write only the letter (A–C) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK, e.g. 3.1.4 D.

A	Statement of Financial Position (Balance Sheet)
B	Statement of Comprehensive Income (Income Statement)
C	Cash Flow Statement

- 3.1.1 Profit on sale of a fixed asset
- 3.1.2 Amount due to shareholders for final dividends payable
- 3.1.3 Total amount spent on the repurchase of shares (3 x 1) (3)

3.2 **SUNSET LTD**

The financial year ended on 28 February 2019.

REQUIRED:

- 3.2.1 Calculate the following figures for the 2019 Cash Flow Statement:
- Income tax paid (4)
 - Dividends paid (4)
 - Proceeds of shares issued (5)
 - Fixed assets purchased (5)
- 3.2.2 Calculate financial indicators for the year ended 28 February 2019:
- % operating profit on sales (3)
 - Net asset value per share (3)
 - Debt-equity ratio (3)

INFORMATION FOR SUNSET LTD:**A. Information from Income Statement on 28 February 2019:**

Sales	R8 725 000
Gross profit	3 525 000
Depreciation	408 000
Operating profit	2 033 900
Interest expense	441 000
Income tax	477 900
Net profit after tax	1 138 000

B. Information from Balance Sheet on 28 February:

	2019	2018
Fixed assets (carrying value)*	R11 835 100	R10 658 000
SARS: Income tax	18 000 Cr	63 000 Dr
Shareholders' equity	8 625 000	10 065 000
Ordinary share capital	7 724 000	9 300 000
Loan: Funza Bank	3 500 000	2 800 000
Shareholders for dividends	372 000	195 000

***NOTE:** Fixed assets were sold at carrying value, R490 000.

C. Share capital and dividends:

SHARE CAPITAL		NUMBER OF SHARES	DETAILS OF SHARES
2018	1 March	1 500 000	In issue at R6,20 per share
	30 April	300 000	Repurchased at R6,90 per share
2019	1 January	40 000	New shares issued
	28 February	1 240 000	In issue

DIVIDENDS			DIVIDENDS PER SHARE
Final	2 March 2018	Paid	13 cents
Interim	31 August 2018	Paid	35 cents
Final	28 February 2019	Declared	30 cents

QUESTION 4: INTERPRETATION OF COMPANY INFORMATION**(40 marks; 40 minutes)**

You are provided with information relating to Horizon Ltd and Optima Ltd.

Mike Mbele owns shares and is a director in both these companies.

He has recently invested another R420 000 in each company by buying shares on the JSE at market value as follows:

HORIZON LTD	OPTIMA LTD
R8,40	R4,00

REQUIRED:

NOTE: Provide figures, financial indicators or calculations in EACH case to support your comments and explanations.

4.1 Purchase of shares:

- Explain why directors should be interested in the price of their companies' shares on the JSE. (2)
- Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019. (3)
- Comment on the price that Mike paid for these additional shares in Horizon Ltd and give TWO reasons why he might have been satisfied to pay this price. (6)

4.2 Dividends and earnings:

- Explain your opinion on which company has the better dividend pay-out policy. (6)
- Compare and comment on the % return on equity earned by EACH company. (4)
- Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. (5)

4.3 Refer to the Cash Flow Statements.

The poor economy has negatively affected Horizon Ltd more than Optima Ltd.

- Explain TWO decisions taken by the directors of **Horizon Ltd** in response to the state of the economy, and how these decisions will affect the company in future. (6)
- Explain TWO decisions taken by the directors of **Optima Ltd** that affect risk and gearing. Quote and comment on TWO financial indicators. (8)

INFORMATION:**A. Shareholding of Mike Mbele in two companies:**

	HORIZON LTD	OPTIMA LTD
Number of shares bought in 2017	580 000 shares	1 430 000 shares
Total shares issued by each company	1 240 000 shares	2 600 000 shares
Additional shares bought by Mike	?	105 000 shares
Mike's % shareholding before buying additional shares	46,8%	55,0%

B. Financial indicators and additional information on 28 February 2019:

	HORIZON LTD	OPTIMA LTD
Financial indicators:		
Earnings per share (EPS)	97 cents	83 cents
Dividends per share (DPS)	65 cents	80 cents
Debt-equity ratio	0,1 : 1	0,7 : 1
% return on average equity	6,2%	18,2%
% return on average capital employed	9,4%	15,1%
Net asset value (NAV)	750 cents	445 cents
Additional information:		
Interest rate on loans	12,0%	12,0%
Interest on investments	6,5%	6,5%

C. Extracts from Cash Flow Statements for the year ended 28 February 2019:

	HORIZON LTD	OPTIMA LTD
Cash flows from investing activities	R2 700 000	(R2 730 000)
Purchase of fixed assets	0	(1 580 000)
Sale of fixed assets	1 800 000	0
Change in investments	900 000	(1 150 000)
Cash flows from financing activities	(2 670 000)	4 000 000
Proceeds of new shares issued	0	200 000
Shares repurchased	(1 070 000)	0
Cash effects of long-term loan	(1 600 000)	3 800 000

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
Note:	
* In this case, if there is a change in the number of issued shares during a financial year, the weighted average number of shares is used in practice.	